

**Minutes of the Strategic Planning & Finance Committees of CareFirst, Inc.**  
**Wednesday, July 25, 2001**  
**4:00 p.m. – 5:30 p.m.**  
**At the Hyatt Regency Baltimore—Inner Harbor**

**Members Present:** Charles W. Shivery (SPC Chairman); Daniel Altobello; Edward J. Baran; Max S. Bell, Jr., Esq.; Joseph Haskins (Compensation Committee); Sister Carol Keehan, R.N., M.S.; Roger C. Lipitz; Patricia E. Lund, Ed.D., R.N.; Robert H. Naftaly; Robert Rider (Finance Committee); James C. Simpson (Finance Committee); George B. Wilkes, III (Compensation Committee)

**Also Present:** William L. Jews; Mark Chaney; Gregory A. Devou; Bill Kirk; John A. Picciotto; Sharon Vecchioni; David D. Wolf; Sandy Beard; Ellen Brown; Jay Smith; Stuart Smith; Michael Muntner; Andrew Rymer

The meeting was called to order by Mr. Altobello.

Staff and advisor presentations were made through use of a handout which had previously been distributed to the Committee, and which is made a part of these minutes.

The minutes from the May 24<sup>th</sup>, 2001 Strategic Planning Committee and the Finance Committee meeting were approved as submitted.

Mr. Chaney presented CareFirst Financial results through June 2001. He noted that Revenue and Interest & Other Income are ahead of plan, year-to-date, offsetting higher-than-planned Incurred Care costs. Net Income is ahead of plan by nearly \$7.3 million, year-to-date, and Mr. Chaney projected that CareFirst financial performance would be on target for the remainder of the year.

Mr. Jews provided an update on the status of negotiations with "Pacific", noting that he believes the legal and organizational issues can be relatively easily resolved. He continued, noting that the gap in associate benefits does not currently have any clear resolution. Mr. Jews stressed the importance of ensuring the optimal transaction partner is selected, with full consideration of the transaction's impact on all constituents, including associates. He also noted that the dialogue with "Atlantic" continues, with this goal in mind.

Mr. Muntner from CSFB provided a brief industry update, concluding that both Atlantic and Pacific remain strong transaction candidates. Both plans have out-performed the market to date, and both exceeded first quarter expectations. Mr. Altobello reminded the Committee that trading in either organizations' securities is illegal while a transaction is under consideration.


Mr. Smith from CSFB reviewed the current status of the Pacific and Atlantic proposals, noting changes from the last bid shared with the Committee. The potential partners were deemed to have similar offers regarding the criteria of Price, Consideration, Stock Floor, Financial Requirements, and Headquarters. Pacific emerged superior with regards to Exchange Ratio, Termination Provisions, and Management, while Atlantic's offer was superior regarding Board Representation and Commitment to Associates. Mr. Altobello challenged the management structure proposed by Atlantic, stating that it would create a confusing reporting relationship, and hinder effective decision-making.

Mr. Picciotto reviewed organizational and legal issues related to the transaction, noting that CareFirst due diligence of Atlantic is scheduled for mid-August. Subsequent to this exercise, a more complete assessment of open issues related to Atlantic can be developed.

Mr. Picciotto continued with an overview of open Pacific issues. He noted that he believes that most of the legal issues can be resolved. However, the most significant difference of opinion is with Pacific's request for an indemnification provision for reversal of an IRS letter ruling. CareFirst legal counsel believes local regulators, in particular, will take issue with this provision.

Among the unresolved organizational issues, Mr. Picciotto cited Mr. Jews' title and role on the BCBSA and Pacific Board of Directors, as well as the role of Unicare in the eastern region, and the selection of the CareFirst and Cerulean management teams. Msrs. Lipitz, Altobello, and Naftaly concurred that identification of the transaction that enhances the position of CareFirst's policyholders and associates should outweigh the consideration placed on the composition of the eventual management team.

At 5:00 p.m., the Committee broke for an Executive Session, which subsequently adjourned at 5:30 p.m.

  
David D. Wolf  
EVP, Medical Systems and  
Corporate development

CareFirst BlueCross BlueShield  
10455 Mill Run Circle  
Owings Mills, MD 21117

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# Memo



**To:** Strategic Planning Committee, Finance Committee, Compensation Committee  
Charles W. Shivery—Strategic Planning Committee Chair  
Robert H. Naftaly—Finance Committee Chair  
Joseph Haskins—Compensation Committee Chair  
Daniel J. Altobello—Chairman of CareFirst, Inc.  
Edward J. Baran  
Max S. Bell, Jr., Esq.  
Sister Carol Keehan, R.N., M.S.  
Roger C. Lipitz  
Patricia E. Lund, Ed.D., R.N.  
Robert F. Rider  
Hanan Y. Sibel  
James C. Simpson  
George B. Wilkes, III

**From:** Dave Wolf

**Subject:** Background Materials for July 25<sup>th</sup> Meeting

**Date:** July 23, 2001

The attached materials are in preparation for our combined Strategic Planning and Finance Committee meeting this Wednesday, July 25<sup>th</sup>, from 4:00 p.m. – 5:30 p.m. The meeting will take place in Baltimore, at the Hyatt Regency (300 Light Street—phone: 410-528-1234) in the Columbia Room. Mr. Haskins will join us to review the Compensation Committee recommendations during an Executive Session. The Compensation Committee is invited to attend this session, as well.

We plan to review the following:

- ☐ Finance Committee Report
- ☐ Industry & Partner Update
- ☐ Key Deal Points Proposed by Potential Partners
- ☐ Open Legal & Organizational Issues
- ☐ Gap between Proposed Benefits & Current Associate Benefits
- ☐ Compensation Committee Recommendations (Executive Session)

Our Committee meeting will be followed by a Board session, during which an SPC update will be provided by Chairman Shivery. If you have any questions or concerns prior to the meeting, please call me at (410-998-5553).

attachments

**Private & Confidential**

**CareFirst**

## **Meeting of the Strategic Planning & Finance Committees**

### **Contents**

**Agenda & Minutes  
Finance Report  
Industry & Partner Update  
Key Deal Points  
Open Issues**

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**July 25, 2001  
4:00 p.m. -- 5:30 p.m.**

## Combined Meeting of the Strategic Planning & Finance Committees

July 25, 2001, 4:00 p.m. – 5:30 p.m.  
Hyatt Regency Baltimore—Inner Harbor  
300 Light Street  
(410-528-1234)  
Location: Columbia Room

### Agenda

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|---|---------------------|------------------------|
| 1) Call to Order  | Shivery/Naftaly     | 4:00 p.m. – 4:05 p.m.  |
| <input type="checkbox"/> Review of 5.24.01 SPC Minutes                  |                     |                        |
| <input type="checkbox"/> Process Review: Direction from 5.24.01 meeting |                     |                        |
| 2) Finance Committee Report   | Chaney              | 4:05 p.m. – 4:10 p.m.  |
| <input type="checkbox"/> Monthly Report                                 |                     |                        |
| <input type="checkbox"/> Forecast                                       |                     |                        |
| 3) Industry & Partner Update  | CSFB                | 4:10 p.m. – 4:15 p.m.  |
| 4) Key Deal Points: Side-by-Side Comparison                             | CSFB                | 4:15 p.m. -- 4:25 p.m. |
| 5) Open Issues: Organizational & Legal                                  | PMRW/Picciotto      | 4:25 p.m. – 4:40 p.m.  |
| 6) Associate Benefits: Gap Analysis                                     | Hay Group/Vecchioni | 4:40 p.m. -- 4:50 p.m. |
| 7) Summary Observations on Negotiation Process                          | WLJ                 | 4:50 p.m. -- 4:55 p.m. |
| 8) Compensation Committee Report  | Executive Session   | 4:55 p.m. – 5:25 p.m.  |
| 9) Next Steps   | Shivery             | 5:25 p.m. – 5:30 p.m.  |